SECOND PILLAR OF THE CAP: RURAL DEVELOPMENT POLICY

As the second pillar of the common agricultural policy (CAP), the EU's rural development policy is designed to support rural areas of the Union and meet the wide range of economic, environmental and societal challenges of the 21st century. A higher degree of flexibility (in comparison with the first pillar) enables regional, national and local authorities to formulate their individual multiannual rural development programmes based on a European 'menu of measures'. Contrary to the first pillar, which is entirely financed by the EU, the second pillar programmes are co-financed by EU funds and regional or national funds.

LEGAL BASIS

— Articles 38 to 44 of the Treaty on the Functioning of the European Union (TFEU);

— Regulation (EU) No 1303/2013 (OJ L 347, 20.12.2013, p. 320) (common provisions concerning the European Structural and Investment Funds);

— Regulation (EU) No 1305/2013 (OJ L 347, 20.12.2013, p. 487) (support for rural development);

— Regulation (EU) No 1306/2013 (OJ L 347, 20.12.2013, p. 549) (financing, management and monitoring of the common agricultural policy);

— The Omnibus Regulation (Regulation (EU) 2017/2393; OJ L 350, 29.12.2017, p. 15) (introducing changes to Regulation Nos 1305/2013 and 1306/2013).

PURPOSE AND PRIORITIES

The European Union's rural development policy was introduced as the second pillar of the CAP under the 'Agenda 2000' reform. It is co-financed by the European Agricultural Fund for Rural Development (EAFRD) and regional or national funds.

The Commission has established three overarching priorities for rural development policy:

1. Fostering agricultural competitiveness;
2. Ensuring sustainable management of natural resources and climate action;
3. Achieving balanced territorial development of rural economies and communities, including the creation and maintenance of employment.

Those main objectives translated into the following six EU priorities for rural development policy in the 2014–2020 period:

1. Fostering knowledge transfer in agriculture, forestry and rural areas;
2. Enhancing the competitiveness of all types of agriculture and enhancing farm viability;
3. Promoting food chain organisation and risk management in agriculture;
4. Restoring, preserving and enhancing ecosystems dependent on agriculture and forestry;
5. Promoting resource efficiency and supporting the shift toward a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors;
6. Promoting social inclusion, poverty reduction and economic development in rural areas.

Rural development policy is implemented through rural development programmes designed by Member States (or Member State regions). These multiannual programmes apply a personalised strategy that meets the specific needs of Member States (or regions) and relates to at least four of the six abovementioned priorities. The programmes are based on a combination of measures selected from a 'menu' of European measures detailed in the Rural Development Regulation (Regulation (EU) No 1305/2013) and co-financed by the EAFRD (see details below). The co-financing rates vary according to the region and measure concerned. The programmes, which have to be approved by the European Commission, must include a financing plan and a set of performance indicators. The Commission and the Member States have set up a joint system for monitoring and assessing rural development policy. During the current programming period (2014 to 2020), emphasis has been placed on coordination between the EAFRD and the other European Structural and Investment Funds ('ESI Funds'), namely: the cohesion policy funds (Cohesion Fund, European Regional Development Fund (ERDF) and European Social Fund (ESF)) and the European Maritime and Fisheries Fund (EMFF).

MEASURES ON THE 'EUROPEAN MENU'

The measures that Member States must include in their programmes cover the following areas:

— Transfer of knowledge and information measures (training, information campaigns, etc.);

— Advisory services, farm management and farm relief services;

— Quality systems applicable to farm produce and foodstuffs (new ways for farmers to participate in quality systems);

— Physical investment (processing of farm products, infrastructure, improving the performance and sustainability of farms, etc.);

- Restoring agricultural production potential damaged by natural disasters and catastrophic events and introducing appropriate prevention actions;
- Development of farms and businesses (business start-up aid for young farmers, non-farm business operations in rural areas, etc.);
- Basic services and revitalisation of villages in rural areas (broadband, cultural activities, tourist facilities, etc.);
- Investment in the development of forests and improving their viability (afforestation and creation of woodland; establishment of agro-forestry systems, prevention and restoration of damage to forests from forest fires, natural disasters and catastrophic events, including parasite infestations and diseases, as well as threats from climate change; investment to improve the resilience and environmental value of forest ecosystems and their potential for mitigating climate change; investment in forestry technologies and in processing, mobilisation and marketing of forest products);
- Setting-up of producer groups and organisations;
- Preservation of farming practices which have a beneficial effect on the environment and climate and foster the necessary changes (agri-environment-climate measures). These measures have to be included in rural development programmes. Commitments must go beyond the mandatory standards;
- Subsidies for organic farming (conversion or support payments);
- Payments linked to Natura 2000 and the Water Framework Directive;
- Payments for areas facing natural or other specific constraints;
- Animal welfare payments;
- Payments for forest, environmental and climate services and forest conservation;
- Encouragement of cooperation between farmers and forestry operators and those involved in the food production chain (establishment of centres and networks, operational groups of the European Innovation Partnership for Agricultural Productivity and Sustainability (EIP));
- ‘Risk management toolkit’: crop, livestock, and plant insurance; mutual funds for adverse climate events, animal and plant diseases, pest infestations and environmental incidents; income stabilisation tool, in the form of financial contributions to mutual funds, providing compensation to farmers for a severe drop in their income.

The Omnibus Regulation, which entered into force on 1 January 2018, has made substantial changes to the existing risk management scheme. The new regulation introduced a new sector-specific stabilisation tool providing compensation to farmers in the case of severe drops in their income which would have a significant economic impact in rural areas. The sector-specific stabilisation tool applies if the drop in income exceeds 20%. Similar support for insurance contracts is now available in cases where more than 20% of a farmer’s average annual production is destroyed.

The Rural Development Regulation also includes a bottom-up local development approach pursued by local stakeholders (the LEADER programme). In addition, the EAFRD finances a European rural development network (whose purpose is to bring together national networks and national organisations and administrations involved in rural development within the EU) and the EIP network, which enables farmers and researchers to get in touch and exchange knowledge. Furthermore, the regulation explicitly allows Member States to implement thematic sub-programmes for young farmers, small farms, mountain regions, short supply chains, women in rural areas, climate change mitigation and adaptation, biodiversity, and restructuring of certain agricultural sectors.

FINANCIAL ASPECTS

In the 2014-2020 multiannual financial framework, some EUR 100 billion were allocated to rural development in the EU budget, with an additional EUR 61 billion being provided by the Member States as national co-financing for such measures. France (EUR 11.4 billion), Italy (EUR 10.4 billion), Germany (EUR 9.4 billion) and Poland (EUR 8.7 billion) are the four main recipients under the EAFRD. At least 30% of EAFRD funds must be allocated to investment in the environment and climate, the development of woodland and improving the viability of forests, 'agri-environment-climate' measures, organic farming, and Natura 2000 payments. In addition, at least 5% of the EAFRD contribution must be spent on the LEADER approach. The amounts and rates of support are set out in detail in Annex II to the regulation (e.g. business start-up aid for young farmers may total up to EUR 70 000, the maximum annual amount of aid for quality systems is EUR 3 000, and, for organic farming, up to EUR 900 a year in aid for the growing of perennials).

IMPLEMENTATION

Between December 2014 and December 2015, the Commission approved all 118 rural development programmes drawn up by the 28 Member States. Twenty Member States have chosen to implement a single national programme, and eight have opted to use more than one programme (to reflect their geography or administrative structure). The arrangements for implementing the second pillar vary greatly from one Member State to another, and even within individual Member States. The preliminary data available show that many Member States have opted to continue with existing measures. The three measures chosen most commonly from the European 'menu' are physical investment (23% of total public spending), 'agri-environment-climate' measures (17%) and payments for areas subject to natural constraints or other specific constraints (16%). Given that the administrative complexity of the implementation of Pillar II was frequently singled out for criticism, one of the objectives of the future post-2020 CAP is to simplify these arrangements.

REFORM OF THE CAP (2020-2027)

On 29 November 2017, the Commission issued a new communication on the future of food and farming, which builds on the recommendations presented in the Cork 2.0

Declaration on rural development (discussions on the future of the second pillar were launched at a European conference held in Cork in September 2016). The communication places an emphasis on sustainable development, the preservation of natural resources and the need to ensure generational renewal. Regarding the latter, the communication invites Member States in particular to devise programmes reflecting the needs of their young farmers and proposes that access for young farmers to financial instruments to support farm investments and working capital be simplified. Finally, the communication sets out a new series of priorities, with a focus on rural value chains in areas such as clean energy, the emerging bio-economy, the circular economy and eco-tourism.

While the Commission's reform proposal does not change the structures and implementation arrangements for the second pillar, it does make some important changes: the EAFRD is no longer a structural fund under the common framework of cohesion policy, the rate of co-financing from the Community budget is reduced and the rules of the Leader programme are brought under the umbrella of cohesion policy, even if it continues to be financed under the agricultural budget.

It should be noted that agri-environment-climate measures will have a key role to play in the CAP's contribution to the implementation of the European Green Deal and the EU's ambitious agri-food chain and environmental strategies (Farm to Fork and Biodiversity Strategy).

The other major challenge for Pillar II will be to maintain its level of ambition with a reduced budget, given that the July 2020 agreement on the multiannual financial framework foresees a 19 % decrease in Pillar II appropriations (to EUR 77.8 billion in constant 2018 euros) compared to the previous period (3.2.10), even though the NextGenerationEU Fund will reinforce the EAFRD budget by EUR 8 billion to help rural areas make the necessary structural changes to achieve the objectives of the European Green Deal and the Digital Transition Pact .

ROLE OF THE EUROPEAN PARLIAMENT

The most recent reform of the CAP was the first to be adopted under the ordinary legislative procedure ('codecision') (3.2.3). The European Parliament played its role as co-legislator to the full, in particular by securing a minimum threshold of 30% of EAFRD funds to be allocated to investment in environmental and climate-change actions, the development of woodland and improving the viability of forests, 'agri-environment-climate' measures, organic farming and Natura 2000 payments, as referred to above. Parliament also insisted on an EAFRD co-financing rate of 85% in least developed regions, the outermost regions and the smaller Aegean islands (the Council originally proposed a co-financing rate of 75%). Finally, Parliament's intervention ensured that the maximum payment per hectare in areas subject to natural constraints or other specific constraints would be EUR 450 per hectare rather than the EUR 300 initially proposed by the Commission and supported by the Council.

François Nègre
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